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Stone Fruit

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Report Highlights:
China's MY 2009 peach/nectarine production is forecast at 9.8 MMT, up two percent from the previous year. Production continues to increase steadily in spite of reduced acreage, as the majority of planted trees have come to full production cycle. Cherry production is forecast at 195,000 MT in MY 2009, up 12 percent from the previous year, as new plantings in previous years have become bearing. Peaches are a favorite fruit among Chinese consumers, yet as China's peach production continues to increase, consumption growth has shown signs of a slowdown. Cherry consumption is growing as a result of increased production, which makes the fruit more affordable.

General Information:

Production:
Peaches/nectarines
China's marketing year 2009 (MY January-December) peach/nectarine production is forecast at 9.8 million metric tons (MMT), up two percent from the previous year. Peach production continues to increase steadily in spite of reduced

acreage, as the majority of planted trees have come to full production cycle. The MY 2007 production figure is revised up 13 percent to nine MMT, in line with FAS/China interviews and official statistics. As a result, MY 2008 production is also adjusted up to 9.6 MMT.

Peach/nectarine acreage is forecast at 675,000 hectares in MY 2009, down two percent from the previous year. Fruit farmers in Shandong Province, the top peach producing province, are slowly reducing peach acreage as prices have remained at low levels. Consequently, some farmers have elected to decrease their peach planted area in favor of planting other more profitable fruits, such as cherries. In southeastern China, however, returns from peach farming are quite substantial, yet an endemic shortage of land resources has prevented acreage expansion in this area.

Peach quality is expected to continue to improve with enhanced orchard management. For example in Wuxi, Jiangsu Province, all peaches are bagged on the tree to achieve an unblemished look and prevent pesticide residues. The number of fruit on each tree is tightly controlled at around 200 peaches through flower/fruit thinning. The average yield in Jiangsu is reported at about 30 MT per hectare. According to local farmers, production costs including labor totaled $4,392 per hectare in 2009, unchanged from the previous year.

Cherries

Cherry production is forecast at 195,000 MT in MY 2009, up 12 percent from the previous year, as new plantings in previous years have become bearing. FAS/China forecasts the trend of production increases will continue in the next few years as these new plantings reach their full production stage. Cherry plantation in the major production areas of Yantai, Shandong Province and Dalian, Liaoning Province seems to have stabilized with the limited land suitable for cherry farming, but acreage is expanding to the mid-west of Shandong and other provinces such as Shaanxi, Henan, Hebei, and Sichuan.

China's cherry planted area is forecast at 57,750 hectares in MY 2009, up five percent from the previous year as returns of planting cherries remain profitable. The average farm size of each household is reported at 0.1-0.2 hectares, and large scale production is very uncommon. The largest farm that FAS/China has visited is less than 60 hectares. In Yantai, where farmers' skills are quite mature, yields range from 7.5 MT (in green houses) to 15 MT (in the field).

Green house cherries are available on the market beginning in late February, but quantities are very limited. It is estimated that green house production accounts for only 5-10 percent of China's total production. The majority of cherries are harvested between mid-May and late-June.

As is the case for peaches, cherry quality is expected to improve in MY 2009, mainly attributed to good weather. The first few months of 2009 have brought less rain compared with the same period last year. Excessive rain during the fruit's development stage results in fruit splitting. Instead, in order to increase cherry size farmers water the trees intensively before harvest and some even apply chemicals to aid in fruit enlargement. On average, cherries from Yantai weigh 15-16 grams each, with a brix of 17-18 degrees.

There are many varieties being planted in China. The most poplar is Red Lantern, a locally-bred variety whose production accounts for nearly 40 percent of China's total. Other major varieties were mostly introduced from overseas including: Ukraine Series, Black Tartarian, Napoleon, Hongyan, Meizao (American Early), Rainier, Bing, Bigarreau Moreau, Van, Lapins, and Stella. China's farmers are testing more new varieties under trial production.

Consumption:

Peaches are a favorite fruit among Chinese consumers. However, as China's peach production continues to increase at a somewhat rapid pace, consumption growth has shown signs of a slowdown. In fact, many peaches are processed into juice/nectar or canned fruit, as was the case in June – August 2008, when the market was flooded with the fruit. Consumers in northern China prefer sweet and firm-flesh peaches with a slightly sour taste, while southern consumers prefer sweet and soft-flesh peaches.

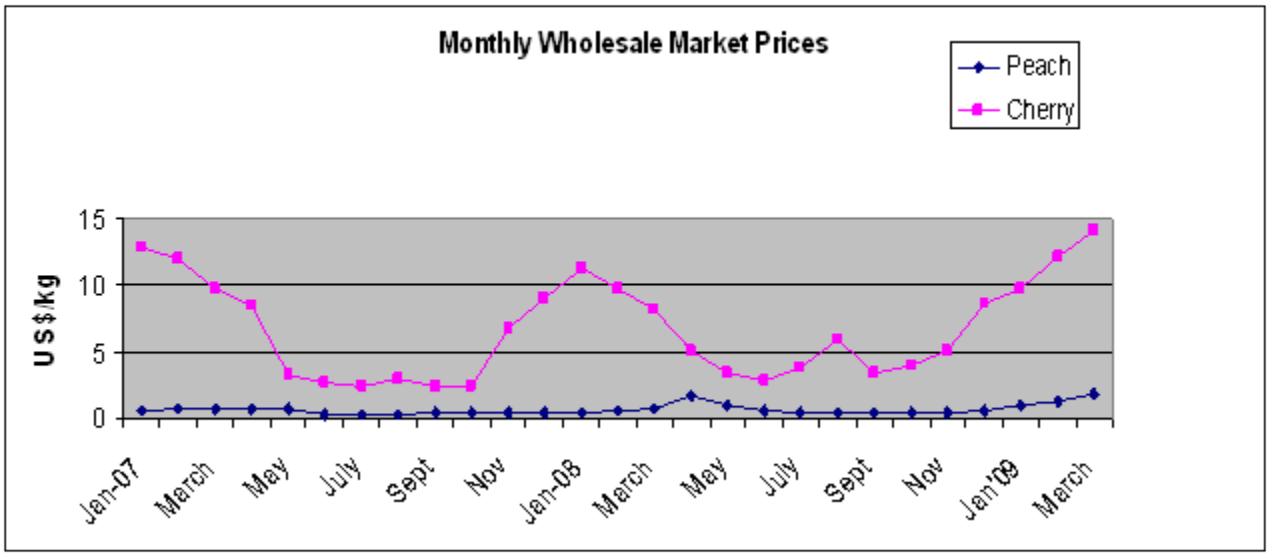
Cherry consumption is growing rapidly in China as a result of increased production, which makes the fruit more affordable for regular consumers. Although cherries are still priced much higher than more "traditional" fruit like apples, prices have dropped significantly from a few years ago. Locally produced cherries are only available in larger cities like Beijing, Shanghai, Dalian, Shenyang, and Yantai. Post interviews with traders indicate Beijing's consumers like sweet and sour tasting cherries, while consumers down south in the Yangtze Delta prefer sweeter varieties. Yellow cherries

(that look similar to Rainier) are particularly favored in Dalian for their appearance.

Imported cherries have become a new popular purchase among high-end consumers in big cities and the economic recession seems to have had limited impact on the import growth of cherries. A new trend emerging for cherries is the gift market. More and more, Chinese consumers are purchasing imported cherries to give as gifts during Chinese holidays like the Spring Festival (Lunar New Year). Consumers traditionally chose other less expensive, more shelf-stable imported fruit such as apples and oranges.

Prices:

Although peach prices in major producing provinces like Shandong and Hebei have increased slightly over the past few years, overall prices remain at low levels. Peaches produced in southern China are priced much higher than their northern counterparts. The farm gate price for top grade peaches in Wuxi, for example, is quoted at $4 per kilogram. Cherry prices have remained strong in recent years, despite the impact of increased production and greater supply availability in the market. When green house cherries first come onto the market in late February or early March, prices reach as high as $60 per kilo. Wholesale market prices drop sharply to $4 per kilo when field cherry harvesting begins in mid-May.



Source: Ministry of Agriculture

Trade:

Imports

Cherry imports are forecast at 4,700 MT in MY 2009, up 40 percent from the previous year, as the fruit continues to gain popularity among China's middle-class consumers. Although cherry production in China is also increasing rapidly, it is unlikely to impact cherry imports because the local supply season only lasts about one month and does not overlap with the supply period of imported cherries. Chile will likely remain the top supplier of imported cherries to China, given lowered tariff (see Policy) and because Chile's supply season coincides with the Chinese New Year, when consumption of imported fruit reaches its peak. Chile exported 2,845 MT of cherries to China during 2008, accounting for 85 percent of China's total imports. The United States supplied the remaining share.

China does not typically import peaches/nectarines.

Exports

Peach/nectarine exports are forecast at 27,500 MT in MY 2009, up just five percent from 2008. Export growth is expected to slow due to weakened demand from neighboring Asian countries in the wake of the global economic recession. Peach exports jumped by 21 percent in 2008 to 24,386 MT. China's overall quantity of peach exports remains quite small because the delicate fruit requires a comprehensive cold chain with stable temperatures during

transportation, something virtually non-existent or prohibitively expensive for many export traders in China.

Policy:

The central government's role in fruit production is geared towards provision of policy guidance and technical support to farmers, FAS/China is not aware of any direct financing from the central government. Financial support, including subsidies, always takes place at lower government levels. The city government of Zaozhuang, Shandong Province, for example, currently provides subsidized loans amounting to $43,923 per hectare for farmers to build green houses equipped with pipe irrigation facilities. Similarly, in Fushun District of Dalian, the local government provides $21,962 as a one-time subsidy to every qualified farmer who builds steel-frame rain shields over their cherry orchards to avoid fruit splitting caused by rain.

Although the number of farmer cooperatives is increasing in China, they generally only include small numbers of farmers and play a very limited role in production or marketing. Ministry of Agriculture, Technical Service Extension Center statistics report more than 300,000 farmer cooperatives are currently operating throughout the country, but estimate 15 percent of the farmers (or 90 million farmers) have enrolled in these cooperatives. A cherry cooperative association in Yantai, for example, shares only information about production, storage, and preservation among member farmers. This particular association does not conduct joint marketing activities.

Currently, China has granted market access to stone fruit originating in Chile, the United States, and New Zealand. China signed free trade agreements (FTAs) with Chile and New Zealand in 2006 and 2008, respectively, which allows imports of stone fruit from the two countries to enter China's market at a lower cost. According to the FTA, fresh cherries from Chile and New Zealand will enjoy a zero tariff on imports to China's market by 2010 and 2012, respectively. The MFN import tariffs for stone fruit remain at 10 percent. Fruit importers also pay a 13-percent VAT.

Marketing:

Market Size

Cherries

A growing middle class and increasing incomes in China have led to consumer demand for greater quality and more variety of fruits. In more developed cities, imported fruit also benefits from improved infrastructure, cold-chain storage facilities, and transportation in China. According to the California Cherry Advisory Board and the Northwest Cherry Growers, about 2,137 tons of U.S. cherries, worth $11 million, were consumed in China in 2008. The value of U.S. cherry exports to China, including transshipments from Hong Kong, has experienced a 20-30 percent growth in the past three years. Based on interviews with industry, China's total cherry imports show a steady increase over the past three years, with a record high in 2008. Traders also indicate that continued growth can be expected in the next few years.

Plums

Plums currently enjoy a small niche market in China. According to Global Trade Atlas data, U.S. plum exports to China remained steady at $2.9 million in 2008, while Chilean plum exports have grown from zero in 2006 to $9.2 million in 2007 and $8.4 million in 2008. Given the fact that some Chinese consumers are willing to pay premium prices for high quality imported fruit, China is still considered a promising market for the California plum industry.

Peaches, Nectarines, and Apricots

China currently does not offer market access to U.S. fresh peach, nectarine, or apricot imports.

Distribution

Guangzhou remains the hub for stone fruit imports from the United States, with Shanghai and Beijing not far behind. For direct shipments of U.S. cherries, 50 percent of total shipments come through Shanghai's port, 40 percent through Guangzhou, and 10 percent through Beijing. Imported U.S. cherries, especially California cherries, face more

competition in North China, as there are several cherry growing areas in this region and the majority of the domestic production is available from mid May through the end of June. However, it is important to note that direct shipments to Beijing still increased by 235 percent from 26 MT in 2007 to 87 MT in 2008.

Most U.S. plums arrive in China through Guangzhou, and are then shipped to major cities like Shanghai and Beijing, where disposable incomes facilitate the sale of high-end imported products.

FAS/China estimates that about 30 percent of China's U.S. cherry consumption is from direct exports from the United States, up from 20 percent in 2007. The remaining 70 percent enters through grey channels. Progress has been made in direct shipments. Establishing stronger trade relationships with local traders in China is helpful to encourage direct trade. Education about U.S. product characteristics and health benefits also remains critical to expanding distribution networks in China. Characteristics such as seasonal availability and varieties of U.S. cherries, packaging offerings, attributes that differentiate from domestically produced cherries and imports from other countries, and storage and handling techniques should be highlighted. In addition, trade/buying missions to visit production areas and meet with exporters can enhance relationships with local traders and build confidence in importing U.S. cherries.

Retail stores remain the predominant venue to sell U.S. cherries. Industry data shows that about 80 percent of U.S. cherry imports are sold at retail chains like Carrefour and Wal-Mart and 20 percent at traditional wet markets or smaller fruit stores. Imported U.S. plums are found in high-end retail outlets, restaurants, and four and five-star hotels. Four different colored plums (red, yellow, black, and green) are available on the market.

Consumer/Trade Education

Consumer/trade education is always an indispensable factor in driving demand for imported products. The United States is viewed as the epitome of a high quality goods supplier. Creating and enhancing the image of premium quality U.S. stone fruit in China is essential to boost U.S. exports to China over the long term. In-store promotions, tastings, and display of point-of-purchase materials have proven to be effective in increasing product awareness among Chinese consumers. Sales of U.S. stone fruits have doubled and sometimes tripled during these promotion periods. Training seminars targeting traders and retail managers on product handling and tips to increase profitability can help build trade confidence.

In addition to on-site promotional activities, reaching targeted consumers through media exposure also plays an important role in raising consumer awareness of the premium quality of U.S. stone fruits. The unique growing conditions in the United States, health benefits, and high U.S. food safety standards make U.S. stone fruits appealing to China's affluent middle class.

Chinese cherry growers are using well designed packages to promote their premium quality cherries.

Packaging is another important factor to be considered as an effective way to stimulate sales, especially during holiday seasons. Chinese consumers tend to buy visually attractive, well-packaged products as gifts for important contacts or relatives. The same is true with high quality seasonal products. When domestic cherries are available, local growers and wholesalers will prepare well designed retail-size packages mainly for two reasons. First, cherries are a perishable fruit and putting them in individual packages can avoid excessive touching by consumers. Second, some growers/wholesalers find it a helpful tool to promote their premium quality cherries and strengthen their brand. In terms of imported cherries, 18 or 20 lb boxes, and also 5kg or 2.5kg boxes are well accepted in East China, as there is a tendency for some consumers to buy a whole box of imported cherries either for personal consumption or as a gift.

Industry sources indicate that taste preferences for different plum varieties vary geographically. Generally, consumers in northern China prefer sweet plums while those in southern China prefer a more tart tasting fruit. In terms of cherries, consumers in first-tier cities prefer larger cherries, for example 9.5-10 row cherries, while 10.5-11 row cherries move fast in emerging city markets (ECMs). The majority of consumers in China prefer darker, firm skin cherries, as they believe they are sweeter and fresher.

Although U.S. peaches do not have market access to China, it is worth noting that local governments and/or farm cooperatives in peach growing regions are organizing marketing activities to help peach growers/brokers sell their peaches. Some famous local varieties of peaches are registered as "famous brands" in the name of its growing region. A peach blossom festival is held every year during the blossom season, and serves as a good platform for social networking and making contacts. Growers/brokers invite their clients such as retailers, institutional buyers, and wholesalers to visit production areas and discuss orders. With massive media exposure during the festival, more consumers become familiar with certain regional peaches and their reputation is enhanced.

Opportunities

Emerging city markets such as Hangzhou, Wenzhou, Shenzhen, Dongguan, Qingdao, and Chengdu offer untapped opportunities for U.S. stone fruits. The growing population of citizens in ECMs has had limited exposure to imported food products, when compared to exposure to high-end or luxury imported products like automobiles and handbags. Once distribution channels are identified and consumer education is increased in these ECMs, they will become the next wave escalating imports of U.S. stone fruits.

Best Prospect Cities for Imported U.S. Stone Fruits (Based on 2008 Data)				
City		GDP (billion yuan)	Estimated Per Capita GDP ($)	Population (million)
North China				
	Beijing	1048.8	9,075	16.95
	Qingdao	443.6	8,508	7.62
East China				
	Shanghai	1369.8	10,603	18.88
	Hangzhou	478.1	8,699	7.97
	Ningbo	396.4	10,199	5.68
South China				
	Guangzhou	821.6	11,795	10.18
	Shenzhen	780.7	13,010	8.77
	Gongguan	370.3	7,787	6.95
Central China				
	Wuhan	396	6,947	8.33
	Chengdu	390.1	4,486	12.71
Source: 2009 statistic report from city statistical bureau				

* 2008 average exchange rate: 1 USD= 6.84 RMB

Challenges

Cherries

U.S. cherries compete with local cherries from the end of May to the end of June. In north China increased production, improved quality of local cherries, and relatively lower prices make local cherries very competitive and can adversely impact demand for U.S. cherries. Although China's cold chain management cannot yet transport large quantities of cherries from production areas to coastal areas like Shanghai and Guangzhou, the situation is expected to improve as China continues to invest in infrastructure improvements. Major cherry orchard owners, together with newly established farm cooperatives, are experimenting with different ways to preserve cherries long enough so they arrive at retail locations as though they were just picked. Currently, some local cherry growers can store cherries for as long as one month. However, quantities are small and fruit quality quickly deteriorates when moved out of storage. Cold chain remains a challenge for U.S. cherries exports to China as well. Even though cold storage facilities exist at most fruit wholesale markets, when it comes to retailer distribution and selling cherries at retail stores, proper cold chain management cannot be guaranteed.

Wholesale markets are the primary distribution channel for domestic cherries

Although Chilean cherries do not compete for shelf space with U.S. product because they are mainly available during January or February, they do have impact sales of U.S. cherries. U.S. cherries are typically sold at double the price of Chilean product, so some distributors and retailers sell Chilean cherries but claim they are of U.S. origin. Faced with misleading sales tactics, distributors, retailers, and consumers who lack knowledge about the actual availability of U.S. cherries are easily confused.

Plums

Competition for U.S. plums mainly comes from local plums that share the same season. China began planting U.S. plum varieties in Northern provinces several years ago. The overall quality of locally produced plums has improved dramatically in recent years with increased farmer inputs. New Zealand and Chilean plums are available from January through February, making them a festival/holiday gift item for the flourishing Chinese New Year market.

Production, Supply and Demand Data Statistics :

2004-2007 China Peach Acreage and Production by Province

China Peach Production (1000 Ha and MT) by Province 2004-2007								
Province	2004		2005		2006		2007	
	1000 ha	MT	1000 ha	MT	1000 ha	MT	1000 ha	MT
Shandong	125.3	1,828,331	126.6	2,011,740	114.3	2,156,308	108.8	2,347,485
Hebei	101.6	1,223,842	99.0	1,248,910	94.0	1,316,853	94.6	1,370,654
Henan	55.4	536,342	60.2	601,029	64.4	650,108	76.0	774,759
Hubei	44.7	428,076	43.5	468,766	39.3	483,510	44.2	502,347
Liaoning	19.0	311,140	20.1	346,978	21.2	417,828	24.5	439,844
Beijing	16.8	296,409	17.4	306,210	17.9	299,783	22.7	414,913
Shaanxi	22.0	216,680	25.4	280,971	26.9	326,387	27.2	391,111
Jiangsu	32.6	326,451	32.8	318,699	31.3	349,959	30.7	389,910
Sichuan	31.9	310,240	34.2	319,039	36.5	330,331	40.9	358,781
Zhejiang	23.8	259,595	24.6	285,842	24.5	311,648	25.5	316,166
Anhui	20.4	188,630	20.6	212,186	20.1	226,789	15.8	289,864
Fujian	26.3	190,248	25.7	199,653	25.6	198,336	25.9	212,800
Shanxi	9.9	129,935	9.9	132,355	10.9	161,768	12.1	178,106
Guangxi	13.2	93,589	15.5	122,080	15.9	125,757	16.5	153,369
Gansu	13.7	74,933	14.2	102,261	14.2	139,340	13.8	142,204

Yunnan	18.0	104,939	18.2	113,385	20.6	118,974	21.5	137,245
Shanghai	10.0	95,277	7.6	102,818	7.2	113,167	7.3	108,921
Hunan	20.9	83,591	21.6	94,888	21.7	102,296	26.7	107,971
Guangdong	6.6	67,258	7.6	86,860	7.5	87,352	7.6	89,537
Xinjiang	10.8	49,390	10.6	56,877	10.1	72,038	10.6	86,137
Guizhou	12.4	58,865	15.7	65,468	16.1	70,621	16.8	80,805
Chongqing	9.3	48,719	10.0	55,554	10.4	52,649	10.8	64,665
Tianjin	4.4	49,006	4.0	48,997	4.2	52,399	4.0	48,776
Jiangxi	9.6	28,386	10.7	37,392	10.8	40,496	10.1	35,786
Ningxia	3.7	8,312	1.0	2,913	3.6	7,693	2.0	7,225
Tibet	0.1	1,259	0.2	1,412	0.1	1,148	0.2	1,249
Jilin	0.5	1,121	0.2	612	0.2	676	0.2	666
Qinghai	N/A	421	N/A	412	N/A	486	N/A	479
National total	662.9	7,010,985	677.1	7,624,207	669.5	8,214,700	697.0	9,051,774
Source: China Agricultural Statistical Report								

Import Tariff and VAT for Fresh Stone Fruit in 2009

HS Code	Description	Tariff		VAT
08092000	Cherries, fresh	Chile	2%	13%
		New Zealand	6%	
		The U. S.	10%	
08093000	Peaches/nectarines, fresh	Chile	2%	13%
		New Zealand	6%	
		The U.S.	10%	
08094000	Plums and sloes, fresh	Chile	2%	13%
		New Zealand	6%	
		The U.S.	10%	
Source: China Customs				